CORPORATE RATING

Al Manar Financing and Leasing Company K.S.C.

Corporate Rating Report

Al Manar Financing and Leasing Company K.S.C.

Kuwait

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AL MANAR FINANCING AND LEASING COMPANY K.S.C.

Kuwait, 5 December 2017

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	**AA-**	-	-
Short-Term:	**A1+**	-	-
Outlook	**Stable**	-	-
Corporate Rating			
Long-Term	**BB**	BB-	Nov 16
Short-Term	**B**	-	-
Outlook	**Stable**	Positive	Nov 16

FINANCIAL HIGHLIGHTS

USD (mn) KWD (mn)	H1 2017 USD	H1 2017 KWD	2016 KWD	2015 KWD
Net Financing Income	4.6	1.4	3.0	3.2
Non-Financing Income	0.5	0.2	0.6	0.6
Operating Expenses	2.5	0.8	1.7	1.9
Net Profit / Loss	4.6	1.4	1.7	1.6
Total Assets	154.2	46.8	49.6	53.8
Net Financing Rec.	104.9	31.8	32.5	37.7
Total Debt	23.5	7.1	10.9	14.3
Total Equity	122.7	37.2	35.8	35.7
Exchange Rate: USD/KWD		*0.303*	*0.306*	*0.304*
NPFR / Financing Receivables		16.96	16.48	9.93
FR-Loss Reserve / NPFR		68.06	74.58	90.11
Unprovided NPFR/Total Equity		5.23	4.34	1.14
Total Equity / Total Assets		79.54	72.16	66.30
Leverage		0.26	0.39	0.51
ROAA (%)		5.76*	3.25	3.17

***Annualised**

RATINGS DRIVERS

Supporting the Rating

- Comfortable debt service ability supported by collection of finance receivables; well matched maturity profile.
- Good operating profitability, notwithstanding the declining trend and improving net profitability ratios in both 2016 and H1 2017.
- Higher level of unencumbered assets; low debt to equity.

Constraining the Rating

- Sharp rise and high non-performing finance receivable (NPFR) ratio and much reduced NPFR loss reserve coverage, particularly in H1 2017, although the latter is mitigated by the modest unprovided NPFR to total equity ratio.
- Very limited and concentrated lender base.
- Low non-financing income reflecting the narrow range of business model.
- Small balance sheet and modest market share in the Kuwait consumer financing sector.

RATING RATIONALE

Capital Intelligence Ratings (CI Ratings or CI) has affirmed Al Manar Financing and Leasing Company K.S.C.'s (Al Manar) Corporate Long- and Short-Term Ratings at 'BB' and 'B', respectively. The ratings are underpinned by the Company's comfortable debt service ability, higher level of unencumbered assets, low debt to equity and good profitability indicators.

Al Manar remains a limited scale finance and leasing company in Kuwait. The growth of the consumer financing market remained slow in 2016 and a contraction was seen in the first six months of 2017. Together with the high market share of a dominant single player, Al Manar has been facing a challenging operating environment. The slowdown of new finance receivables generation has led to a reduced funding need for Al Manar. As the Company continues to borrow on a secured basis, this meant a raising level of unencumbered assets as borrowings were repaid. Debt service ability continues to be adequately supported by collections of finance receivables. Notwithstanding a higher level of short-term borrowings, the Company's debt maturity profile is well matched with that of its finance receivables resulting in positive gaps in all maturity buckets. Al Manar's profitability indicators are strong supporting factors. Its operating profitability remained at a good level despite the declining trend and compared well with its immediate peer and other consumer finance companies rated by CI in the GCC region. Net profitability has also improved in 2016 and more so in H1 2017, although this was aided largely by a one-off gain from the disposal of an investment property in 2016 and a provision write-back in H1 2017.

The main constraints to the ratings are the recent noticeable weakening of asset quality and the very limited and concentrated lender base. In 2016 the Company witnessed a noticeable increase in NPFRs, although a small decline was seen in H1 2017. This substantially reversed the improving trend of asset quality of the previous two years. Al Manar's NPFR ratio rose to a high level at end H1 2017, which compared unfavourably with the largest competitor, as well as CI's base of consumer finance companies in the GCC region. NPFR loss reserve coverage declined in 2016 and in H1 2017 to a just satisfactory level. This is however mitigated by the Company's modest unprovided NPFR to total equity ratio.

Delinquency ratios of its sub-segments of financings have weakened noticeably, although those of the new and used car financings remained manageable, reflecting the Company's forte in these segments. The low debt to equity and leverage are supporting factors. However, the leverage is considered too low for a finance company – more so in the case of Al Manar, which does not have a customer deposit base due to regulatory restriction and could constrain future growth of finance receivables. Al Manar's lender base also remained very limited and concentrated with one lender providing the bulk of funding. This funding line has however been substantially reduced at end Q3 2017, although the addition of a new lender in H1 2017 with a small facility is a positive move. Other constraining factors are the low non-financing income reflecting the narrow business model and the small balance sheet and share of the consumer finance market.

While the Outlook is maintained at 'Stable' a lack of any significant improvement of asset quality metrics over the next 12 months is likely to put downward pressure on the Company's ratings.

OUTLOOK

With the challenging operating environment, in particular the slowdown of the consumer finance market, Al Manar has revised its financial forecasts downwards in its business plan for the forthcoming five-year period. With the substantial weakening of asset quality, the Company will be focusing on improving metrics in this area. That said, the slow recovery seen up to H1 2017 and the lack of write-off of NPFRs is likely to keep the NPFR ratio at a high level, which in turn would put a strong downward pressure on the Company's ratings. While the unprovided NPFRs to total equity remained modest, the NPFR loss reserve coverage has declined and needs to be improved.

New funding requirements are projected to be modest. However, if asset growth is stronger than currently expected, the required additional could be supported by the higher level of unencumbered assets, as well as the planned reduction in investments in murabaha receivables. Nonetheless, the profile of its lender base is likely to remain very limited and concentrated due partly to the small number of Islamic banks in Kuwait. Liquidity will remain supported by the short-term finance receivable which in turn would continue to support the Company's good debt service ability.

No capital increase is projected in its business plan and consequently equity growth will depend on the retention of earnings. The latter however will remain impacted by the Company's annual dividend payment which is quite high relative to net profit. Internal capital generation is thus likely to remain fairly modest.

The declining financing receivable income is a negative rating factor, although this is anticipated to pick up with projected growth of the finance receivable book. A positive factor was the widening of financing differential seen in H1 2017. Non-financing receivable income, on the other hand, will remain modest in line with the stable and modest level of investments. Operating expenses are projected to increase moderately over the forecast period. Operating profitability is likely to remain a positive factor for the Company and so is the expected improving ROAA over the forecast period.

History

Al Manar Financing and Leasing Company K.S.C. (Closed) was established in November 2003. Al Manar's primary area of activity remains the provision of consumer finance, largely for the purchase of automobiles. However, it also makes other types of loans to consumers and provides real estate and vehicle fleet financing for commercial customers. Al Manar conducts its financial services activities in accordance with Islamic Shari'a principles and is regulated and supervised by the Central Bank of Kuwait (CBK) and Capital Market Authority (CMA). Al Manar's major shareholders have remained very stable over the years and the position at end Q3 2017 is shown in the table above.

Al Manar's Major Shareholders at End Q3 2017	**%**
Investment House (Clients A/C-Qatari Client: QIPCO Holding)	15.91
Wafra International Investment Co (Clients account: PIFSS)	14.58
Financial Assets	13.74
Global Investment House Co (Clients account)	6.22
Other*	49.55
Total	**100.00**

**all other shareholders own less than 5%.*

Business Model

Al Manar's business plan is based on providing financing facilities to the following market segments:

1) Consumer Financing

- **Vehicle purchase.** Facilities for the purchase of new vehicles and facilities for the purchase of used vehicles are similar in structure. The main differences are that the tenors of used car facilities will typically be shorter, while the cost to the customer will be marginally higher. Average facility amounts will normally be lower, reflecting the lower cost of a used vehicle. All vehicles are effectively mortgaged in favour of Al Manar by means of registration of the charge at the traffic department, as this prevents transfer of ownership to a third party, while the financing contract remains outstanding. The maximum tenor of financing facilities is 60 months.

- **Cash facilities.** These loans will typically be rather shorter in tenor than vehicle purchase loans. They also tend to be more expensive to the customer. The maximum tenor for such facilities is also 60 months.

2) Fleet Financing

This targets companies and agencies that wish to finance their fleets of vehicles.

3) Real Estate Financing

Real estate facilities are (unlike vehicle purchase or cash loans) offered to Kuwaitis only, either individuals or local companies. All real estate financings require a first mortgage on the property, or (more normally) Ijara contract structure. For income producing investment property, the maximum loan to value level is 65%. Raw land is not financed. The maximum tenor for real estate financing is 15 years.

Pricing. This varies depending on a number of factors including tenor, nature of asset being financed, and purpose/use of asset, as well as Al Manar's own cost of funds. Comparisons with competitor financing also play a significant role. Despite its partially secured basis, pricing on real estate lending is at the high end because of tenor, while the lowest rates are for vehicles for personal use. However, overall pricing has been declining over the years due largely to high competition and the low interest rate environment in Kuwait.

INVESTMENTS

As in previous years, Al Manar's investments include a portfolio of financial investments − fair value through income statement (FVTPL) and available for sale (AFS) investments (largely unquoted investments), a book of Islamic instruments, and a small portfolio of investment properties. The latter were acquired from the foreclosure of NPFRs in earlier years.

Overall contribution to revenue from these investments remained modest in terms of dividend and rental income. Potential volatility is also fairly moderate given the size of its financial investments portfolio. The Company had taken sizeable impairment against its AFS investment (Qatar Finance House), which resulted in losses in prior years. Further impairment was taken in 2015 and 2016, although this was moderate at KWD156K in 2015 and a lower KWD74K in 2016. See related section in the financial analysis for details.

FUNDING

Al Manar operates under an Investment Company licence; therefore, it cannot accept deposits. Consequently, funding must come from capital or from borrowings. As the Company operates on a Sharia'a compliant basis, all borrowings are via Islamic structures on an effectively secured basis, usually with assignment of financing receivables. The latter has however expanded in recent years to include Islamic instruments, AFS investments and investment properties. Please see *Funding and Liquidity* p.12 for further details.

PRINCIPAL BUSINESS STRATEGIES

Al Manar's current position in relation to challenges faced with regards to asset quality, availability of funding lines and control expenses are as follow:

- Asset quality, which had been improving for the past two years, witnessed a noticeable weakening in 2016 with a sharp rise in NPFRs. A decline, albeit modest, was seen in H1 2017. Nonetheless, with a contracting finance receivable book, Al Manar's NPFR ratio rose in 2016 and H1 2017 to a high level. NPFR loss coverage has also fallen from good level in previous years to just a satisfactory level at end H1 2017. A major mitigating factor however was the still modest unprovided NPFR to total equity ratio.
- With the slowdown of financing activities, the Company's borrowings have also declined. While its main relationship bank remained with Kuwait Finance House, the funding line was reduced substantially to KWD5.8mn at end Q3 2017 from a high KWD15mn due largely to non-utilisation. Offsetting this negative development was the addition of a new lender although the facility obtained was modest.
- An area of good achievement was the reduction in operating expenses in both 2016 and H1 2017. Al Manar's operating profitability ratios remained at a good level, notwithstanding the declining trend. Net profitability improved particularly so in H1 2017 on the back of a provision write-back. Al Manar's profitability ratios compares well with its largest competitor, CFC.

The processes above have also been accompanied by a 'back to basics' change in strategy. Available resources are to be redeployed back to Kuwait and, within Kuwait, into the core business. Al Manar is still looking to divest its remaining (14.8%) stake in QFH.

ECONOMIC OUTLOOK – KUWAIT

For Kuwait, an outlook for the economy must always separate macroeconomic and microeconomic prospects, as the linkage between the two is not as close as would usually be the case in a larger and more diversified economy. To a considerable extent, it is the government and the wider state sector (state-owned oil companies etc.) that provide this linkage, through investment expenditure and transfers via current expenditure on goods, salaries and services, such as the health and educational systems.

Oil prices. From the macroeconomic viewpoint, the Kuwaiti economy continues to show considerable resilience, despite the rapid decline in oil prices that began in 2015 and persisted until fairly recently. Moreover, it remains to be seen whether the recent firming in oil prices is maintained. Prior to mid-2014, government revenues had been strong on the back of higher oil prices, although volumes were constrained by adherence to the country's OPEC production quota. While the recent firming in oil prices is welcome, it has been achieved in part by OPEC countries and Russia restraining output – so for Kuwait firmer prices is in part offset by lower volumes.

Oil Price Outlook. Kuwait enjoys the lowest fiscal breakeven oil price among GCC member states at around USD49 per barrel. With hydrocarbon prices having gradually recovered to USD55 per barrel and above, CI Ratings expects the central government budget to post surpluses of 2.4% of GDP in FYE 2018 and 0.6% in FYE 2019, with rising oil revenues partially offset by a pickup in capital spending and in some areas of current spending (the central government budget includes investment income but excludes transfers to the intergenerational equity fund, which are currently set at 10% of oil revenues).

Economic growth. The Kuwaiti economy has successfully weathered the impact of the sustained period of low hydrocarbon prices. Economic performance is expected to have improved in FYE 2017, with real GDP expanding by 3.5% compared to stagnation in FYE 2016, buoyed by 3.5% growth in the non-hydrocarbon sector and a slight recovery in hydrocarbon GDP. The economic outlook remains subject to downside risks in the short to intermediate term. Economic growth is expected to average 3.5% during FYE 2018-20, buoyed by growth in non-hydrocarbon sectors. However, a renewed period of substantial decline in oil prices and derailed reforms in the non-hydrocarbon sectors could hinder recovery and push the economy into slowdown. Inflation is also projected to remain manageable, at 3.6% in FYE 2018 and 3.4% in FYE 2019, compared to 3.4% in FYE 2017.

Oil still dominates. Oil dominates the Kuwaiti economy and Kuwait's proven oil reserves of 104 billion barrels are the sixth largest in the world (this includes an estimated 2.5 billion barrel share of reserves in the Saudi-Kuwait neutral zone). The oil-dominated economy still suffers from major structural imbalances, namely its under-developed non-hydrocarbon private sector compared to other investment grade rating peers. In particular, the country's non-hydrocarbon sector remains dependant on government spending and expatriate labour. In spite of the high concentration risk, the Kuwaiti government's net asset position of around 254% of GDP is deemed to be more than sufficient for it to introduce counter-cyclical measures in case of financial distress.

Public finances. With large financial buffers and substantial room for borrowing, the public finances have weathered the period of low oil prices and remain in a better shape than in many GCC peers. Central government debt remains low, albeit increasing to about 20% of GDP in FYE 2017, and is mainly issued for monetary policy purposes rather than to finance government spending. Government financial assets are substantial and include the investments of the two state oil funds. The actual level of government assets is uncertain as public disclosure of reserve fund assets is prohibited by law but is estimated to have been over USD500 billion in 2015.

External balances. The balance of payments remains comfortable and the external current account continues to register surpluses. Gross external debt, which is mostly owed by the private sector, is low at around 32% of GDP and is dwarfed by the government's external assets.

OVERVIEW OF THE CONSUMER SECTOR IN KUWAIT

The contribution of consumer spending to the total Kuwaiti GDP is said to have increased to 45.3% at end 2016 from 29.0% in 2010, which reflects the strength of the sector and is the main contribution to growth of the Kuwaiti economy. The salaries paid to employees in the public sector has almost doubled from KWD3.2 billion in 2010 to KWD6.4 billion at end H1 2017, which represented a compound annual growth rate of 10%. The total government salaries paid during the past eight years amount to about KWD38 billion excluding salaries paid to private sector workers

The increase in consumer spending contributed to the strong growth in personal credit facilities, which amounted to KWD14.7 billion in July 2017 and represented 41% of total credit facilities of banks. This amount also equate to a compound annual growth rate of 9% over the past 7 years. Consumer loans accounted for 7.6% of personal loans.

During the period 2010 to 2017 point of sale transactions in Kuwait and abroad amounted to KWD51.3 billion and a compound annual growth rate of 16%. These statistics indicate the strength of the consumer sector in Kuwait and the high consumption expenditure locally and abroad aided by the high purchasing power of the Kuwaiti consumer. The average Kuwaiti share of GDP reached USD71.8k; the sixth position globally among the highest income people.

As per CBK's financial stability report, breakup of household loans in 2016 reveals that around 84.9% were instalment loans. The latter are long-term personal loans for repair and purchase of private homes. Consumer loans meant for purchase of consumer durables or to cover education/medical expenses constituted the second major category of household loans with 12.6% at end 2016. The remaining household loans relate to credit card related loans. In terms of asset quality, indicators have improved visibly over the past few years. This is evident by the steady decline in both gross and net non-performing loan ratio. The gross NPLR on a consolidated basis has dropped to a historically low 2.2% (1.8% on domestic, Kuwait-only basis) and is supported by a very robust coverage ratio at 237% in 2016.

NBFC's consumer finance companies loan growth at end H1 2017

Company	Loan Portfolio Dec 2016	Loan Portfolio June 2017	Growth %	Market Share %
CFC	256,327	253,303	-1.18	81.94
Al Manar	32,532	31,800	-2.25	10.29
KFIC	17,189	13,716	-20.20	4.44
ARZAN	11,119	10,250	-7.82	3.32
AAYAN	6,263	59	-99.06	0.02
Total	**323,430**	**209,128**	**-4.42**	**100.0**

As can be seen in the above table provided by the Company, the consumer finance market in Kuwait remained dominated by CFC with a market share of 81.9%. Al Manar maintained its second position with 10.3% share of the market at end H1 2017.

RISK FACTORS FOR AL MANAR

Credit risks

As stated earlier the credit quality of the Company's finance receivable book witnessed a noticeable weakening in 2016 with the sharp rise in NPFRs in 2016, although a small decline was seen in H1 2017. And with a contracting finance receivable book, Al Manar's NPFR ratio rose in a high level at H1 2017, which compares unfavourably with its largest competitor, CFC. NPFR loss coverage also declined in 2016 and in H1 2017 to just a satisfactory level, although this is mitigated by the still modest unprovided NPFR to total equity ratio.

Going forward, management remains focus on improving asset quality. In this regard, the Company intends to speed up recovery processes and where possible obtained additional collateral to improve debt recovery prospects.

Borrowing/Funding risks

Al Manar does not have a customer deposit base due to regulatory restrictions. Funding is reliant upon bank facilities and other wholesale funding sources and in this regard there remains a general reluctance of banks to lend to the finance companies.

But with the slowdown of finance receivable activities, the need for funding has declined. The funding line from its main lender was substantially reduced in Q3 2017 due largely to non-utilisation. The recent addition of a new lender is a positive move, although the facility raised was modest. Another positive factor was the increased level of unencumbered assets with the decline in borrowings. This in turn would aid the Company's plan to raise new funds to support future finance growth. The Company's business plan for the next five years only calls for a moderate increase of borrowings in the near term. Any new funding would also help the Company to rebuild its finance receivable portfolio which in turn is the main type of asset pledged as collateral.

Competitive risks

Threat from the Banks. Kuwait was unusual in that at one time a reasonably large proportion of consumer lending was provided by non-banks with investment company status, while in other GCC countries, banks were always much more active in this area. Following the crisis (and in some cases even before), there was a shake-out and a number of providers either exited the business or cut back their volumes considerably, in some cases due to pressure on funding. Given their lower funding costs, increased competition from the banks will always remain a threat to the business model of the remaining non-bank lenders.

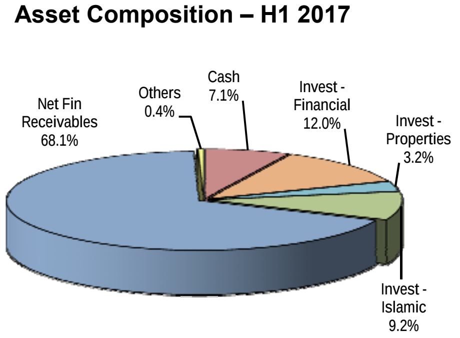
As shown in the table in previous page, CFC continues to dominate the consumer finance market in Kuwait. Al Manar maintained its second place at end Q3 2017. Al Manar will need to continue to draw on its experience and expertise to provide a competitive edge in terms of service, approval time, etc. That said, statistics showed that the consumer finance market has contracted for the first six months of 2017 and consequently full year growth is likely to be flat.

FINANCIAL ANALYSIS

The 2016 consolidated financial statements of Al Manar and its subsidiaries were prepared by management in accordance with International Financial Reporting Standards and audited to International Accounting Standards by Deloitte & Touche, Al Wazzan & Co. The 2016 accounts are unqualified. The following analysis also uses the six months ending June 2017 financials, which are unaudited, but reviewed.

Management has also provided substantial additional information including certain positions such as the finance receivable book and funding base as at end Q3 2017.

BALANCE SHEET


Asset Composition – H1 2017

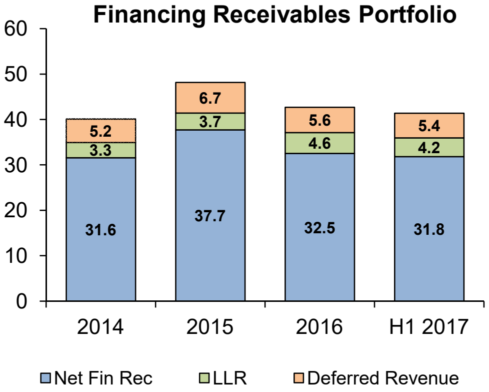
Contraction of asset base largely mirrored the slowdown of finance receivables in both 2016 and H1 2017. Reversing the good expansion of total assets in 2015, the Company's asset base registered a decline of 7.8% in 2016. The latter was due largely to the decline in net finance receivables and a smaller book of investment properties, which was offset by the higher level of cash and equivalent and the increase in investments in murabaha receivables.

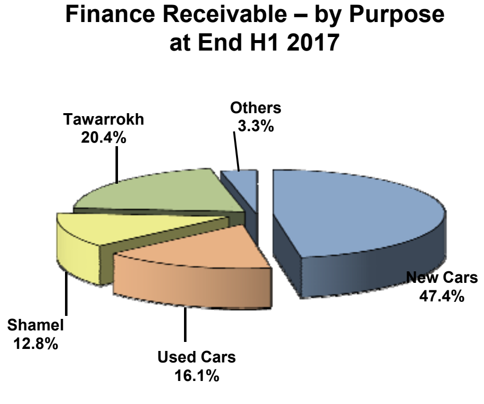
The Company's asset base composition at year end 2016 was fairly similar to that of previous years. The finance receivable book remains the Company's largest asset class, although it (at net level) accounted for a lower 65.6% of total assets at end 2016.

At end H1 2017 the Company's total assets declined further by 5.8% to KWD46.8 million (USD154mn). A fall was seen across all asset classes. The largest contraction relates to cash and cash equivalent assets, followed by a relatively moderate decline in net finance receivables. In aggregate they accounted for 97.7% of the fall in total assets in absolute terms. The composition of the asset base at end H1 2017 is shown in the previous pie-chart. Notwithstanding the further contraction, net finance receivables represented a higher 68.1% of total assets at end H1 2017. In line with the Company's business model, its assets remained predominately in Kuwait.

QUALITY OF FINANCE RECEIVABLE BOOK

Contraction of the finance receivable book in both 2016 and H1 2017. While demand from the consumer sector has been buoyant, according to CBK, the largest proportion of borrowings in banking sector was for the purchase and/or repair to private homes. Consumer durable borrowings however remained moderate. As shown in the table on page 6, the contraction of net finance receivables at Al Manar at end H1 2017 was largely in line with the overall decline of the consumer finance market. The fall seen in 2016 however compared unfavourably with a modest growth (by 2.0%) of the largest competitor, CFC.




Finance Receivable – by Purpose at End H1 2017

The composition of Al Manar's finance receivable book in 2016 saw a shift from financings for new vehicles to other financings and for used vehicles, in particular. This trend continued into H1 2017. Nonetheless financings for new vehicles accounted for the largest proportion of the finance receivable book at 51.3% of gross at end 2016; down from 54.0% a year earlier. This however dropped further to a still high 47.4% at end H1 2017. This was followed by tawarroukh financings, which formed 19.9% of gross finance receivable at end 2016 and 20.4% at end H1 2017. Financings for used car was the third largest component although this has risen to 15.0% of gross at end 2016 up from 13.0% a year earlier and to a higher 16.1% at end H1 2017. Shamil, which is largely the financing for consumer durables such as white goods rose to form another 12.8% of gross finance receivable at end 2016 and was stable at end H1 2017. In absolute money terms, the main contributor to the rise in other financings in H1 2017 relate to heavy equipment for private projects, which formed a higher 3.4% of gross finance receivables; up noticeably from 1.2% at end 2016. It should be noted that the finance receivable table above includes deferred revenue.

As per information provided by management, financings for new vehicle have dropped further in Q3 and represented a lower 45.9% of gross finance receivable. The overall the composition of the finance receivable book was however fairly stable to that at end H1 2017 with the other two largest financings remaining with tawarroukh and used vehicle.

KWD'000	Gross Finance* Receivable			NPFRs			NPFR Ratio (%)		
	2015	2016	H1 2017	2015	2016	H1 2017	2015	2016	H1 2017
New Cars	25,975	21,904	19,615	1,386	1,686	1,894	5.33	7.7	9.7
Tawarroukh	10,005	8,401	8,430	361	2,341	2,249	5.75	27.9	26.7
Used Cars	6,271	6,388	6,661	1,976	765	674	19.75	12.0	10.1
Others	5,895	5,996	6,673	389	1,320	1,281	6.61	22.0	19.2
Total	**48,146**	**42,689**	**41379**	**4,112**	**6,112**	**6,098**	**8.54**	**14.3**	**14.7**

**information provided by management; gross loans include deferred income and, consequently, the NPFR ratios are lower than that of CI's*

A jump in non-performing finance receivables (NPFRs) in 2016 but a modest decline seen in H1 2017 however combined with a contracting finance receivable book, Al Manar's NPFR ratio has risen to a high level. Following a modest (6.2%) increase a year earlier, NPFRs rose sharply by 48.6% in 2016, which compared unfavourably against the improvement seen at its largest competitor CFC. The latter saw a 17.7% decline in NPFR. Together with the contraction of the finance receivable book, the Company's NPFR ratio rose to a high 16.5% at end 2016. A positive development was the decline of NPFRs albeit modest (by 3.5%) in H1 2017. With a further contraction of gross finance receivable in H1 2017, Al Manar's NPFR ratio climbed to an even higher 17.0%. While this information was not available for CFC at end H1 2017, Al Manar's NPFR ratio was much higher than that of the consumer finance companies rated by CI in the GCC region.

As shown in the above table the main contributor was the sharp rise in non-performing tawarroukh, which accounted for the bulk of overall increase in NPFRs in 2016. This substantial weakening overshadowed the good improvement in the used car financings segment with NPFRs falling by a significant 61.3%. Non-performing shamil financings (classified under others in the above table) was the second contributor to the rise in NPFRs and this was followed by a smaller increase in non-performing new car financings. In H1 2017 a decline, albeit modest, was seen in a number of financings segments such as used cars, tawarouhk and shamil, which more than offset the rise in non-performing new car financings.

With the sharp rise in NPFRs in the various segments, delinquency ratios of the related segments weakened noticeably in 2016. The delinquency ratio of the new car financings has risen although this remained manageable at end H1 2017. A positive development is the ongoing improvement in the used car financings segment.

The aging profile of NPFRs was fairly favourable in 2016 but this weakened at end H1 2017 with the bulk of NPFRs in the overdue more than 365 days bucket as shown in the adjoining table. Concentration was not significant as NPFRs were made up of 398 individual transactions in 2016 and 420 transactions at end H1 2017.

Aging of NPFRs **%**	**2015**	**2016**	**H1 2017**
91-180 Days	16.1	19.1	8.3
181-360 Days	14.1	33.0	9.9
360+ Days	69.8	47.9	81.9
Total	**100.0**	**100.0**	**4.46**

The Company did not write off anything in 2015, 2016 and H1 2017. The amount written off in 2014 was very modest, at KWD0.2mn. In 2016 the amount recovered was higher at KWD315K compared to KWD231K a year earlier although this has slowed in H1 2017 to KWD70K compared to KWD227K in the same period a year earlier.

Declining NPFR loss reserve coverage a negative factor, although mitigated by a modest unprovided NPFR to total equity ratio. With the sharp rise in NPFRs, the Company has stepped up provisioning. However, the increase finance receivable loss reserve was much lower than that of NPFRs resulting in a noticeable fall in NPFR loss coverage ratio to 74.6% at end 2016. That said this ratio was at similar level of the largest competitor, CFC. In H1 2017 a larger reduction of loss reserve compared to the decline in NPFRs saw the loss reserve ratio falling further to a just satisfactory 68.1%. The latter compared unfavourably with the higher loss reserve coverage position seen at the consumer finance companies rated by CI in the GCC region at end H1 2017.

It would take the Company just over 8 months based on the operating profit in 2016 to reach full coverage and just over a year with the weaker operating profit in H1 2017. Despite the above, Al Manar’s unprovided NPFR to total equity remained modest at 4.3% and 5.2% at end 2016 and H1 2017.

Good effective collateral. The Company held collateral amounting to KWD11.7mn on its finance receivable book at end H1 2017 up from KWD9.4mn at end 2016 despite the contracting finance receivable book. Collateral as a percentage of the gross finance receivable remained moderate at 28.4% in H1 2017 up from 21.9% at end 2016. However, it should also be noted that vehicles financed (new and used which in aggregate accounted for almost two thirds of the finance receivable book) registered under the Company’s name are not recognised by the CBK as acceptable collateral. Consequently effective collateral position is far higher.

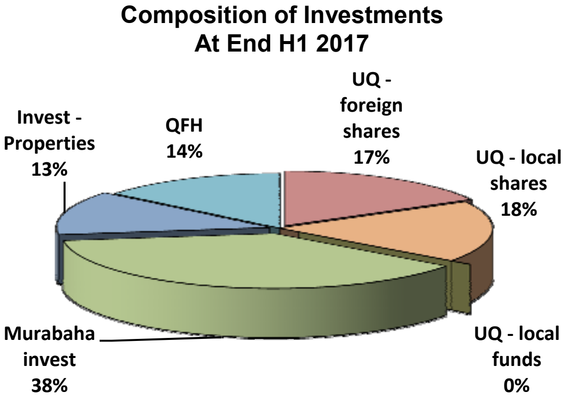
The collateral for the NPFR book alone stood at KWD1.4mn at end 2016 and KWD1.7mn at end H1 2017, which provided an equally moderate NPFR coverage ratio of 23.2% and 28.0%, respectively. Once gain this does not include the vehicles of the non-performing new and used cars financings, which in aggregate formed 40.1% and 42.1% of total NPFRs at end 2016 and H1 2017, respectively.

Management advises that the track record of NPFRs collection in the vehicle financing category remains good, as borrowers can always liquidate the vehicle with the permission from the Company to pay any past due instalments. This was particularly evidenced in the improvement in the used car segment in recent periods.

Nonetheless, CI remains of the view that finance receivable loss reserve (FRLR) in any consumer finance business should be high, to reflect the (low) effective collectable value of security and the intrinsic risk of this type of lending.

Rising past due but not impaired financing receivables another negative factor of asset quality. Another metric used by CI in determining asset quality is the level of past due not impaired (PDNI) finance receivable under 90 days. At Al Manar, these PDNIs rose to KWD12.9mn at end 2016, which represented a high 30.1% of gross finance receivable; up from 23.9% a year earlier and in H1 2017, these PDNIs rose further to KWD15.6mn, which represented an even high 37.6% of gross finance receivable. However, it should be noted that the Company has classified the whole account as PDNI when 1 payment is missed at the end of a reporting period. The amount actually past due in 2016 and H1 2017 was low at KWD0.9mn in 2016 and KWD1.0mn in H1 2017.

INVESTMENTS PORTFOLIO



Investments Type KWDmn	2015	2016	H1 2017
Financial Invests (FVIS & AFS)	5.5	5.6	5.6
Islamic Instruments	3.0	4.3	4.3
Properties	2.1	1.5	1.5
Total	**10.6**	**11.4**	**11.4**

A modest investments book in absolute money terms however it represents a sizeable and rising share of the asset base. A large proportion remained unencumbered. The components of the Company's investment portfolio are illustrated in the preceding table. As a percentage of total assets, these investments represented a higher 23% and 24.3% at end 2016 and H1 2017, respectively.

Composition remained largely stable and the position at end H1 2017 is shown in the preceding pie chart. With the contraction of the finance receivable book, surplus resources were deployed to Murabaha investments, which formed over a third of the Company's investments portfolio. The book of financial investments remained the largest component at close to half of the total portfolio, as shown in the above table. As in previous years, the largest proportion was the Company's fair value through profit or loss (FVTPL) investments, which comprised largely unquoted local and foreign equities with a very small amount in local funds. These FVTPL investments carried a level 2 fair value hierarchy (market comparatives). The remaining financial investments were classified as available for sale and relate solely to its holding in QFH.[1] The book of investment properties declined with the sale of an investment property in November 2016 (see below for further details). Both at end 2016 and H1 2017 62.3% of total investments were pledged to the borrowings of the Company.

[1] QFH is a company incorporated in Qatar and its principal activity is consumer financing in accordance with the Sharia'a. QFH has remained loss making for a number of years. In 2016 the net loss was rose to QAR9.7mn compared to the small loss of QAR0.5mn a year earlier but for the first time, the Company posted a net profit of QAR11.4mn compared to a net loss of QAR2.0mn in the same period last year aided by a large reversal of provision which was approved by the Central Bank. Al Manar has been looking to sell its remaining 14.8% stake for the past few years in line with its strategy to deploy resources back to Kuwait. In both 2016 and H1 2017 Al Manar continued to take impairments on this investment.

Net investment income was a positive KWD66K in 2016 compared to a loss of KWD276K in the previous year. In H1 2017 net investment income was a gain of KWD47K, which was much lower than the gain of KWD120K seen in the same period last year.

Small book of investment properties These properties are located in Kuwait and are held to earn rentals and/or for capital appreciation. Position as at end H1 2017 is shown in the table below.

		Investment Properties		
Area	**Size (sqm)**	**Number Of Floors**	**2016 Income KWD**	**H1 2017 Income KWD**
Al-Mahbola	500	Basement + Ground + 5 Floors + Outside Shop	50,880	26,460
Al-Mangaf	1000	Two Buildings: Building 1 - Ground + 5 Floors Building 2 - Ground + 7 Floors+ Outside Shop	74,050	37,590

Valuations are generally carried out twice a year, in June and December, by independent valuers who are not related to the Company. Rental income, as in previous years, remained modest in absolute terms as shown in the table above.

In line with the current softening of the real estate market, valuation in June 2017 showed a modest correction. In aggregate, market value of the above properties declined by KWD30k although remaining fairly stable KWD2.2mn at end H1 2017. The valuations used in this calculation were the average of two valuations information provided by management. Management advised that an old building, Al Fahaheel was demolished and the land was sold for KWD1.1mn in November 2016. A gain of KWD430k from the sale was recognised in 2016. Rental income in 2016 amounted to KWD129K down from KWD165K a year earlier.

FUNDING & LIQUIDITY

Encumbered Assets	H1 2017 KWDmn	 % of Total Portfolio	 % of Total Assets	2016 KWDmn	 % of Total Portfolio	 % of Total Assets
Investment properties	1.5	100.0	3.2	1.5	100.0	3.0
AFS investment	1.3	81.9	2.8	1.3	80.0	2.6
Islamic Instruments	4.3	100.0	9.2	4.3	100.0	8.7
Financing Receivables	20.9	43.3	29.5	20.5	62.9	41.2
Total	**20.9**	**53.3**	**44.6**	**27.6**	**69.0**	**55.5**

Declining trend of secured borrowing although lender base remained very limited and concentrated. As previously stated, the Company operates on a Sharia'a compliant basis and consequently, all borrowings are via Islamic structures, on an effectively secured basis usually against the assignment of financing receivables. However, collateral in recent years has expanded to include financial investments, Murabaha investments and investment properties.

At end 2016 Al Manar's total borrowings declined to KWD10.9mn from KWD14.4mn a year earlier and further to KWD7.1mn at end H1 2017. The latter was made up of only two facilities from local Islamic banks with the largest facility forming a high 81.7% of total borrowings representing concentration of its funding base. KFH remains the Company's main lender although its funding line was recently substantially reduced from KWD15mn to KWD5.8mn in Q3 2017. Offsetting this negative was the addition of a new lender although facility obtained is modest.

As shown in the table above, the type of encumbered assets in both 2016 and H1 2017 were largely the same. In line with the decline in borrowings, the amount of encumbered assets has also decreased to form a lower 55.5% of total assets at end 2016 from 64.7% at end 2015 and further to 44.6% at end H1 2017. That said, the percentage of collateral over borrowings has risen from 243.3% in 2015, to 251.8% in 2016 and further to 292.8% at end H1 2017.

(KWDmn)	1mth	1-3 mths	3-6mths	6-12mths	>1yr	Total
2016						
Finance Rec	1.83	2.84	4.03	5.52	18.30	32.52
Borrowings	0.75	1.11	1.75	3.17	4.16	10.94
Gap	**1.08**	**1.73**	**2.28**	**2.35**	**14.14**	
H1 2017						
Finance Rec	1.72	2.78	3.70	6.34	17.26	31.80
Borrowings	0.50	1.01	1.48	2.41	1.72	7.12
Gap	**1.22**	**1.77**	**2.22**	**3.93**	**15.54**	

The high and rising level of collateral could curtail the Company's ability to raise further funds going forward. The desirability of its unencumbered assets is also questionable given the weaker quality of its finance receivable book and the still largely unquoted status of its FVTPL investments. That said, Al Manar's business plan for the next five years calls for a fairly moderate level of borrowings.

Sound debt maturity profile While the Company's short-term borrowings have risen to 51.3% of total borrowings in 2016 up from 46.4% a year earlier and to an even higher 77.6% of total borrowings, as shown in the above table, borrowings remained well matched with the collection of finance receivables with a positive gap in all maturity buckets

Liquidity and debt servicing remained supported by the collection of finance receivables. The Company's current ratio remains sound supported by the good level of short term financing receivables. The latter accounted for a high 43.7% and 45.7% of net finance receivables at end 2016 and H1 2017.

Al Manar's liquid asset holdings remained limited to its cash balance as its financial assets are largely unquoted. Cash balances rose marginally to KWD5.4mn in 2016 from KWD5.2mn a year earlier before declining to KWD3.3mn at end H1 2017, which represented a modest 10.9% and 7.2% of total assets as at end 2016 and H1 2017, respectively.

If investments in murabaha receivables are to be included, then the Company's liquid asset ratio would improve to 19.5% and 16.3% at end 2016 and H1 2017, respectively. However as in previous years, the Company's effective liquidity is largely supported by its short-term proportion of finance receivables. At end 2016 and H1 2017 short-term finance receivables represented a sizeable 28.7% and 31.1% of total assets, respectively.

Debt Service Ability KWDmn	2016	H1 2017
S/T borrowings	6.80	5.40
Other payables	1.87	1.51
Total S/T Liabilities	**8.65**	**6.91**
S/T Finance Receivable	14.22	14.54
Cash & cash equivalent	5.39	3.33
Total	**19.61**	**17.87**
Cash & S/T FR /ST Liabilities (times)	**2.26**	**2.58**
Cash & S/T FR / S/T borrowings (times)	**2.96**	**3.30**

While the level of short term borrowings has declined in line with the lower overall debt, the level of short term finance receivable has also fallen with the contraction of the finance receivable book. Nonetheless, as shown in the above table, the cash and short-term finance receivable to short term liabilities and short-term borrowings ratios remained at a sound level in 2016 and H1 2017.

Management advised that there were no unutilised credit limits at end H1 2017 or at end Q3 2017.

Slowdown in finance receivable activities led to positive operating cash flow in 2016 and H1 2017. Cash flow analysis is not particularly meaningful for a finance company but for the record, Al Manar operating cash flow was a large positive of KWD5.6mn in 2016 compared to an outflow of KWD2.6mn a year earlier due largely to collection of instalment finance receivables of KWD4.4mn compared to the disbursement of finance receivables totalling KWD6.3mn a year earlier. In investing activities, the Company acquired additional KWD1.3mn in murabaha receivables, which was offset by the KWD1.1mn received from the sale of an investment property which resulted in the small outflow of KWD105k from investing activities. Cash from financing activities was highly negative at KWD5.3mn compared to a positive of KWD7.4mn as borrowings were repaid.

In H1 2017 cash flow from operating activities remained positive at KWD2.0mn given the further contraction of finance receivable book. Cash flow from investing activities was a small inflow reflecting income from its murabaha receivables and dividends received. Cash flow from financing activities remained negative at KWD4.2mn due largely to further repayment of borrowings. The large financing cash outflow was met through a combination of cash inflow from operating and investing activities as well as the drawdown of cash balances.

CAPITAL BASE

Small equity base; low internal capital generation due to the high dividend payment. Al Manar has never had a large paid-in equity base and the KWD4.2mn loss posted in 2009 wiped out retained earnings. A small recovery (KWD0.9mn) was seen in 2010 but the Company suffered a further setback with the net loss of KWD3.7mn incurred in 2011. The Company has, however, returned to profit since 2010. The Company's internal capital generation was good in previous years with the full retention of net profit but with the resumption of dividend payments in 2014, internal capital generation has dropped substantially.

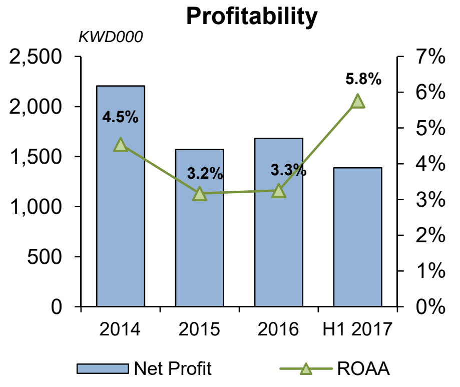
Equity KWDmn	2014	2015	H1 2016
Capital + premium	31.2	31.2	31.2
Reserves	2.7	3.0	3.0
Retained Earnings	1.7	1.5	2.5
Total	**35.6**	**35.7**	**36.7**

In 2016 the Company's equity base grew by an anaemic 0.4% in 2016. This was the result of a high dividend payment in relation to earnings. While the amount of dividend paid in absolute money terms has been the same for the past few years at KWD1.5mn, the net profit in 2015 and in 2016 was not that much higher at KWD1.6mn and KWD1.7mn, respectively. This equated a very high payout ratio of 98.3% for FYE 2015 and 91.7% for FYE 2016 and consequently the very weak internal capital generation.

Low leverage for a finance company. With the decline in borrowings, the Company's leverage dropped to a low 0.39% at end 2016 from 0.51% at end 2015 and further to an even lower 0.26% at end H1 2017. While CI normally welcomes lower leverage, this can go too far when the company in question is a finance company. Al Manar needs to rebuild its financing receivables portfolio to grow earnings, which will in turn require new funding. The latter will remain in the form of bank borrowings as it is cannot accept customer deposits.

EARNINGS PERFORMANCE

Rebound in earnings in 2016 largely contributed by an one-off gain from disposal of an investment property. Al Manar reported an increase of 7.1% in net profit which compared favourably against the large contraction a year earlier. Together with the decline in total assets, the Company's ROAA (return on average assets) improved marginally to 3.25% in 2016 up from 3.17% a year earlier.



H1 2017 annualised

Gross income in 2016 decreased further by 5.2% to KWD3.6mn due mainly to the declining financing income and a higher financing expense. This was however partly offset by a small 4.6% increase in non-financing income. Thanks to a 10.8% decline in operating expenses, Al Manar was able to maintain a fairly stable operating profit at KWD1.9mn in 2016. The provision charge including impairment rose by 17.5% in 2016, which led to a 19.3% contraction in gross profit. With the gain from the disposal of an investment property which CI has classified as an extraordinary item, Al Manar's net profit rose to KWD1.7mn up from KWD1.6mn a year earlier.

Stronger earnings performance in H1 2017 aided largely by a large write back of provisions. Gross income in H1 2017 contracted by a sizeable 13.8% (y-o-y) with a decline in both net financing and non-financing income. Notwithstanding a further reduction in operating expenses albeit modest, the Company's operating profit registered a large contraction of 21.2% y-o-y in H1 2017.

Following substantial write back of provisions, the Company posted a y-o-y increase of 35.4% in net profit to KWD1.4mn. Together with a further contraction of the asset base, Al Manar's ROAA improved noticeably to 5.8% in H1 2017. That said, a negative factor was the substantial fall in NPFR loss coverage in H1 2017.

Declining net financing income Financing income slipped marginally by 1.1% in 2016 compared to the larger 7.8% fall a year earlier due to the contracting finance receivable book as well as the fall in financing income on average earning assets. Financing costs rose noticeably by 31.9% up from 12.7% a year earlier which remained a main constraint to the growth of net financing income in 2016. Financing differential declined for the third consecutive year to 3.2% although this remained better than its largest competitor CFC at 3.1%.

In H1 2017 financing income declined by a higher 15.9% largely reflecting the further contraction of the finance receivable book. Financing income on average earning assets ratio was however maintained at 9.1% in H1 2017. Financing expense on the other hand declined by a sizeable 37.1% y-o-y reflecting the lower borrowings. The Company's financing cost thus improved to 5.6% down 6.0% in 2016 which led to a widening of financing differential by 28bps to 3.5%. This compared well against the continued narrowing seen at its competitor, CFC.

Non-financing income remained modest. The Company's source of non-financing income remained narrow reflecting its moderate investments. As in the previous year, this comprised of fee income from its financing activities, rental income from its investment properties and dividend income from its financial investments. In 2016 non-financing income rose by 4.6% to KWD635K aided largely by the higher dividend income and a positive fair value change of its FVTPL investments. The latter was a relatively large loss in the previous year. Fee income dropped sharply with the slowdown in financing activities. It should be noted that CI has reclassified the KWD430K gain from the disposal of an investment property in 2016 as an extraordinary item.

In H1 2017 non-financing income was down noticeably by 34.6% y-o-y. (No breakdown was available in the financial statement). As a percentage of gross income, Al Manar's non-financing income was moderate at 17.6% in 2016 and this slipped to a fairly low 10.1% in H1 2017.

Operating expenses under control. Operating expenses declined by 10.8% in 2016 but with the almost flat gross income, the Company's operating profit growth was equally flat at 0.6%. In H1 2017 however, despite a further decline in operating expenses by 3.9% y-o-y, Al Manar posted a sizeable 21.2% y-o-y contraction in operating profit due to the much reduced gross income. The Company's cost to income ratio improved to 47.5% in 2016 but slipped to 48.1% in H1 2017. The operating profitability ratio declined but remained sound at 3.7% in 2016 and 3.4% in H1 2017.

Provision charge (including impairment) rose in 2016 but a large write back was seen in H1 2017. In 2016 provision charge including impairment rose by 17.5% and represented a higher 32.3% of operating profit; up from 14.9% a year earlier. In H1 2017 Al Manar wrote back a much higher KWD604K compared to a modest write back of KWD16K in the same period a year earlier.

FINANCIAL FORECASTS 2017-2021

The Company has provided CI a forecast for the period 2017 to 2021. This forecast was based on a number of assumptions including additional funds to support sales and an annual dividend of 5% of paid capital. Investments are projected to remain at the current level of KWD5.7mn.

Highlights and a summary of the forecast are appended below and CI's views of these projections have been incorporated in the performance outlook on page 2.

Lending activities have been substantially revised downwards in line with projected funding availability as well as the highly monopolised financing receivable market. As shown in the adjoining table, the finance receivable book will remain the Company's largest asset class in line with its business model. This book is projected to account for more than three fourths of total assets through the forecast period.

Asset Composition KWDmn	2017	2018	2019	2020	2021
Financing Receivables	33.7	35.9	38.8	41.2	43.0
Investments	5.7	5.7	5.7	5.7	5.7
Murabaha & Wakala	1.7	1.7	1.7	1.7	1.7
Invest Properties	2.1	2.1	2.1	2.1	2.1
Cash	0.7	1.6	0.1	0.9	0.4
Others	0.6	0.5	0.5	0.3	0.3
Total	**44.5**	**47.5**	**48.9**	**51.9**	**53.2**

As stated earlier, its financial investments portfolio is to stay stable at KWD5.7mn of which KWD1.7 relate to its holding in Qatar Finance House. Needless to say these investments will remain subject to potential volatility. Other investments will remain with Murabaha and wakala receivables and a small book of investment properties. Investment Murabaha and wakala receivables are anticipated to decline as resources are channelled to the funding the finance receivable book. The Company also intends to increase its investments in properties albeit modestly.

Low leverage for a finance company. Borrowings in terms of wakala payable is projected to rise although at a moderate rate throughout the forecast period. Almost half of other creditors are related to staff indemnity.

As the Company intends to borrow from only Islamic banking, its funding base is thus likely to remain concentrated given the small number of Islamic banks in Kuwait.

No capital increase is projected for the forecast period. Equity base is to grow steady in line with earnings projections but modestly given the annual cash dividend payment. While modest as a percentage of share capital, the rate of dividend payment however represents a fairly high dividend payout ratio. The latter averaged at 65.3% of earnings over the forecast period. As shown in the adjoining table, notwithstanding the projected rise in borrowings, the Company's leverage is projected remain low for a finance company.

KWDmn	**2017**	**2018**	**2019**	**2020**	**2021**
Wakala payables	5.2	7.3	7.7	9.6	9.5
Other creditors	*2.3*	*2.5*	*2.6*	*2.5*	*2.7*
Total liabilities	*8.8*	*11.1*	*11.7*	*13.5*	*13.6*
Total equity	*35.8*	*36.4*	*37.3*	*38.4*	*39.6*
Leverage	0.24	0.30	0.23	0.26	0.25

**includes other creditors*

Liquidity to remain dependent on the payments received from the financing receivable book. With modest cash and no quoted investments, the Company's liquidity, as in the previous years, will remain supported by receipt of payments from the financing receivable book.

Net profit forecast to grow fairly steady up to 2020 with a modest decline in 2021. As shown in the table below, financing income is expected to grow in pace with the projected growth of the finance receivable book. Similarly, funding cost is projected to be much lower compared to previous projections in view of the lower level of borrowings.

Non-financing income stream will remain limited but fairly stable in line with the level of investments. It should be noted that no gain or loss is projected on its FVTPL investments which is unlikely to be the case. That said, volatility is also likely to be moderate given the small size of these financial investments.

The gross income growth is projected to rise by 11.1% in 2018 before declining to 6.5% in 2019 and then picking up marginally to 7.0% in 2020 before falling noticeably to 2.7% in 2021, which largely reflects the trend of financing income. Operating expenses are to increase at a measured pace resulting in the Company's operating profit growing at similar rate in relation to gross income.

Profit and Loss KWDmn	**2017**	**2018**	**2019**	**2020**	**2021**
Financing Income	*3.51*	*4.01*	*4.30*	*4.73*	*4.85*
Funding Cost	*(0.42)*	*(0.50)*	*(0.46)*	*(0.53)*	*(0.53)*
Net Financing Income	3.09	3.51	3.84	4.20	4.32
Other income	0.78	0.79	0.74	0.70	0.71
Gross Income	3.87	4.30	4.58	4.90	5.03
Operating expenses	(1.59)	(1.66)	(1.72)	(1.80)	(1.86)
Operating Profit	2.28	2.64	2.86	3.10	3.17
Provision	(0.37)	(0.39)	(0.40)	(0.43)	(0.46)
Net Profit	**1.91**	**2.25**	**2.46**	**2.68**	**2.72**
ROAA	**4.05**	**4.88**	**5.08**	**5.31**	**5.16**

The Company anticipates provision is to rise moderately over the forecast period in the absence of any significant weakening of asset quality. The resultant net profit is projected to rise at a fairly robust rate of 17.8% in 2018, before declining in tandem with slower gross income growth in 2019 and 2021. The projection for 2022 is a fairly modest of 1.5% in net profit growth. Translated ROAA is projected to improve over the forecast period up to 2020 with a marginal decline seen in 2021.

Debt service through instalments collection. The forecast provided also shows that the Company would be able to service all its current and new external financings through instalments collections from its finance receivable book. Overall, the average monthly collection is anticipated to be well above KWD1.5mn (and nearer KWD2.0mn in 2021), while external debt settlement average repayment is projected to remain below KWD600K monthly.

APPENDIX

SUPERVISION & REGULATION

Al Manar is supervised and regulated by the CBK, the CMA and by the Ministry of Commerce. In the medium-term, Al Manar plans to apply for a listing on the Kuwait Stock Exchange (KSE). In terms of reporting, a range of quarterly returns would be required. In addition, any purchases or sales of treasury stock would have to be reported immediately to the KSE. The Company currently submits monthly reports to the CBK in a manner similar to that of commercial banks and must obtain Central Bank approval and permission before the release of financial information. The supervision department of the Central Bank periodically audits the Company for compliance with regulatory requirements. The regulatory regime in Kuwait includes regular on-site inspections, as well as ongoing off-site supervision.

Al Manar follows the common regulatory requirements for consumer lending in Kuwait. These apply to all lenders, both bank and non-bank. The main areas covered are:

a) Maximum interest rates (related to the Central Bank discount rate)

b) Maximum tenors

c) Repayment ability assessment

As with other consumer lenders in Kuwait, Al Manar must report all outstanding financings to the Ci-Net credit bureau system, Kuwait's credit bureau.

COLLATERAL POLICY

Listed stocks. Acceptable shares should be those of Kuwaiti companies listed on the KSE. The coverage ratio for those shares is a minimum of 200% and the customer is required to sign a contract that gives the Company the right to liquidate those shares at any time without referring to the customer.

Real estate. The real estate should be located in Kuwait. The maximum loan to value is 65% for income producing real estate, while 200% collateral coverage is required for non-income producing real estate. The real estate should be registered as having a first-charge collateral status for the facility and the customer is required to sign a contract that gives Al Manar the right to liquidate at any time without referring to the customer.

Letter of Guarantee. The letter of guarantee should normally be issued by a Kuwaiti bank. On the rare occasions where a guarantee is issued by an overseas bank, prior approval of the Company's board is required. The letter of guarantee should cover 100% of the required loan.

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

KW60

SUMMARY RATIOS						
		External Audit	AUD	AUD	AUD	AUD
			06/2017	12/2016	12/2015	12/2014
A .	**SIZE FACTORS (KWD 000)**					
1 .	Total Assets		46,756	49,614	53,793	45,201
2 .	Net Financing Receivables		31,800	32,532	37,703	31,583
3 .	Total Equity		37,190	35,802	35,663	35,635
4 .	Tangible Net-Worth		37,190	35,802	35,663	35,635
5 .	Total Debt		7,129	10,941	14,303	6,928
6 .	Net Profit		1,388	1,683	1,571	2,206
7 .	Assets Under Management					
B .	**ASSET QUALITY (%)**					
8 .	Total Assets Growth Rate		-5.76	-7.77	19.01	-13.11
9 .	FR-Loss Reserve / Financing Receivables		11.55	12.29	8.95	9.59
10 .	Non-Performing FR / Financing Receivables		16.96	16.48	9.93	11.08
11 .	FR-Loss Reserve / Non-Performing FR		68.08	74.58	90.11	86.51
12 .	Unprovided Non-Performing FR / Total Equity		5.23	4.34	1.14	1.47
13 .	FR-Loss Provision Charge / Financing Receivables		1.68	-1.45	-0.30	-0.43
C .	**CAPITAL AND LEVERAGE**					
14 .	Total Equity Growth Rate (%)		3.88	0.39	0.08	6.60
15 .	Total Equity / Total Assets (%)		79.54	72.16	66.30	78.84
16 .	Leverage (Times)		0.26	0.39	0.51	0.27
17	Leverage - Excluding Minority Interest (Times)		0.26	0.39	0.51	0.27
18 .	Total Liabilities / Tangible Net-Worth (Times)		0.26	0.39	0.51	0.27
19 .	Long-Term Debt / Total Equity (Times)		0.05	0.12	0.22	0.09
20 .	Total Debt / Total Equity (Times)		0.19	0.31	0.40	0.19
D .	**LIQUIDITY AND COVERAGE**					
21	Current Ratio (Times)		4.10	3.48	3.26	5.24
22 .	Cash + QI + ST Gross FR / ST Debt (Times)		3.30	2.96	3.99	5.83
23 .	Cash & Quoted Investments / Total Assets (%)		7.13	10.87	9.60	4.95
24 .	Cash & Quoted Investments / Total Liabilities (%)		34.83	39.03	28.49	23.37
25 .	Net Financing Receivables / Total Assets (%)		68.01	65.57	70.09	69.87
26 .	Net Financing Receivables / Total Liabilities (%)		368.80	264.81	242.86	378.64
E .	**PROFITABILITY (%)**					
27 .	Return on Average Assets (ROAA)*		5.76	3.25	3.17	4.54
28 .	Return on Average Equity (ROAE)*		7.61	4.71	4.41	6.39
29 .	Funding Cost*		5.55	6.01	5.41	5.27
30 .	Financing Income on Average Earning Assets*		9.06	9.24	9.84	11.02
31 .	Financing Differential*		3.51	3.23	4.43	5.75
32 .	Non-Financing Income / Gross Income		10.06	17.58	15.95	12.81
33 .	Operating Expenses / Gross Income		48.07	47.46	50.45	41.66
34 .	Operating Profit Growth Rate		-57.24	0.58	-21.37	-18.60
35 .	Operating Profit / Average Assets		1.68	3.67	3.81	4.93
36 .	Risk Provisioning Charge / Operating Profits		74.42	-32.27	-14.92	-6.20
37 .	Realized Income / Gross Income		100.00	100.00	100.00	100.00
38 .	Dividend Payout Ratio			91.73	69.99	84.08
F .	**INVESTMENT**					
39 .	Market Capitalization (KWD 000)					
40 .	Share Price (KWD)					
41 .	Earnings Per Share (KWD)		0.004	0.005	0.005	0.007
42 .	Earnings Per Share Growth (%)		-17.53	7.09	-28.76	20.13
43 .	Price / Earnings Ratio (Times)					
44 .	Price / Book Ratio (Times)					
45 .	Cash Dividend Per Share (KWD)					
46 .	Stock Dividend Per Share (%)					
G .	**REFERENCE DATA**					
.	Exchange Rate (Units per USD)		0.303	0.306	0.304	0.293
.	Inflation Rate (%)					

* Annualised ratios for June 2017

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2017	AUD	AUD	AUD	AUD	Growth (%)				Breakdown (%)			
BALANCE SHEET - ASSETS (KWD 000)	**USD 000**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**
Cash & Banks	10,988	3,332	5,391	5,166	2,235	-38.20	4.36	131.11	329.72	7.13	10.87	9.60	4.95
Net Financing Receivables	104,882	31,800	32,532	37,703	31,583	-2.25	-13.72	19.38	-21.00	68.01	65.57	70.09	69.87
Other Receivables													
Prepayments & Accruals													
Investments	37,505	11,371	11,404	10,626	11,020	-0.29	7.32	-3.57	-0.74	24.32	22.99	19.75	24.38
Net Fixed Assets	195	59	68	33	47	-12.65	106.24	-30.74	-24.10	0.13	0.14	0.06	0.10
Due From Associates													
Goodwill & Other Intangible Assets													
Other Assets	640	194	219	264	316	-11.24	-17.35	-16.21	-11.62	0.41	0.44	0.49	0.70
TOTAL ASSETS	**154,210**	**46,756**	**49,614**	**53,793**	**45,201**	**-5.76**	**-7.77**	**19.01**	**-13.11**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.

External Audit	06/2017	AUD	AUD	AUD	AUD		Growth (%)				Breakdown (%)		
BALANCE SHEET - LIABILITIES (KWD 000)	**USD 000**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**
Short-Term Debt	17,845	5,411	6,804	6,450	3,842	-20.48	5.49	67.87	-69.11	11.57	13.71	11.99	8.50
Short-Term Payables	1,909	579	819	2,269	1,520	-29.30	-63.92	49.27	-70.39	1.24	1.65	4.22	3.36
Prepayments & Accruals	2,700	819	1,055	592	475	-22.44	78.19	24.79	0.69	1.75	2.13	1.10	1.05
Long-Term Debt	5,667	1,718	4,138	7,853	3,086	-58.48	-47.31	154.49		3.67	8.34	14.60	6.83
Long-Term Payables													
Reserve for Retirement Pay & Insurance													
Due To Unc. Subsidiaries & Associates	0	0	0	0	0								
Other Liabilities	3,432	1,041	997	966	644	4.35	3.19	50.11	17.51	2.23	2.01	1.80	1.42
TOTAL LIABILITIES	**31,552**	**9,567**	**13,812**	**18,130**	**9,566**	**-30.74**	**-23.82**	**89.52**	**-48.54**	**20.46**	**27.84**	**33.70**	**21.16**
EQUITY:													
Equity Attributable To Shareholders of Parent Co.													
Share Capital	101,830	30,875	30,875	30,875	30,875					66.03	62.23	57.40	68.31
Share Premium	1,029	312	312	312	312					0.67	0.63	0.58	0.69
Less: Treasury Shares													
Statutory Reserve	6,019	1,825	1,825	1,654	1,493		10.37	10.74	17.95	3.90	3.68	3.07	3.30
Voluntary Reserve	4,757	1,442	1,442	1,356	1,196		6.33	13.41	-3.84	3.08	2.91	2.52	2.65
General Reserve													
Cumulative Change in Fair Value													
Gain on Sale of Treasury Shares													
Foreign Currency Translation													
Proposed Dividend													
Retained Earnings	8,997	2,728	1,340	1,458	1,751	103.58	-8.10	-16.74	-736.77	5.83	2.70	2.71	3.87
SUB-TOTAL	**122,632**	**37,182**	**35,794**	**35,655**	**35,627**	**3.88**	**0.39**	**0.08**	**6.60**	**79.52**	**72.14**	**66.28**	**78.82**
Minority Interest	25	8	8	8	8					0.02	0.02	0.01	0.02
TOTAL EQUITY	**122,658**	**37,190**	**35,802**	**35,663**	**35,635**	**3.88**	**0.39**	**0.08**	**6.60**	**79.54**	**72.16**	**66.30**	**78.84**
TOTAL LIABILITIES & EQUITY	**154,210**	**46,756**	**49,614**	**53,793**	**45,201**	**-5.76**	**-7.77**	**19.01**	**-13.11**	**100.00**	**100.00**	**100.00**	**100.00**

AL MANAR FINANCING AND LEASNING COMPANY K.S.C

External Audit	06/2017	AUD	AUD	AUD	AUD	Growth (%)				% of Average Total Assets			
PROFIT AND LOSS ACCOUNT (KWD 000)	**USD 000**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**	**06/2017**	**12/2016**	**12/2015**	**12/2014**
Interest Income / Financing Income	5,459	1,655	3,733	3,774	4,094	-55.67	-1.06	-7.83	-17.29	3.44	7.22	7.62	8.42
Interest Expense / Financing Expense	-827	-251	-758	-575	-510	-66.92	31.93	12.69	-42.73	-0.52	-1.47	-1.16	-1.05
NET INTEREST INCOME / NET FINANCING INCOME	**4,632**	**1,404**	**2,975**	**3,199**	**3,584**	**-52.80**	**-6.99**	**-10.75**	**-11.71**	**2.91**	**5.75**	**6.46**	**7.37**
Fees & Commission Income			189	359	158	-100.00	-47.28	127.42	-59.77		0.37	0.72	0.32
Rental Income			129	165	153	-100.00	-21.94	7.90	6.86		0.25	0.33	0.31
Dividend Income			120	83		-100.00	44.86				0.23	0.17	
Foreign Exchange Income													
Investment Income	156	47	20	-203	98	141.25	-109.64	-307.32	-137.14	0.10	0.04	-0.41	0.20
Share of Results of Unc. Subsidiaries & Associates													
Profit on Sale of Unc. Subsidiaries & Associates													
Other Income	363	110	177	203	118	-37.75	-12.83	71.75	-52.78	0.23	0.34	0.41	0.24
NON-INTEREST INCOME / NON-FINANCING INCOME	**518**	**157**	**635**	**607**	**527**	**-75.24**	**4.57**	**15.26**	**0.89**	**0.33**	**1.23**	**1.23**	**1.08**
GROSS INCOME	**5,150**	**1,562**	**3,610**	**3,806**	**4,111**	**-56.74**	**-5.15**	**-7.42**	**-10.28**	**3.24**	**6.98**	**7.69**	**8.46**
General & Administrative Expense	2,426	735	1,685	1,890	1,678	-56.35	-10.85	12.61	4.35	1.53	3.26	3.82	3.45
Lease / Rental Expense													
Depreciation & Amortization	50	15	28	30	34	-46.62	-5.33	-12.73	24.99	0.03	0.05	0.06	0.07
Other Expenses													
OPERATING EXPENSES	**2,476**	**751**	**1,713**	**1,920**	**1,713**	**-56.19**	**-10.77**	**12.10**	**4.70**	**1.56**	**3.31**	**3.88**	**3.52**
OPERATING PROFIT	**2,675**	**811**	**1,897**	**1,886**	**2,398**	**-57.24**	**0.58**	**-21.37**	**-18.60**	**1.68**	**3.67**	**3.81**	**4.93**
Provisions For Doubtful Financing Receivables	1,991	604	-538	-125	-149	-212.27	328.89	-15.72	-86.37	1.25	-1.04	-0.25	-0.31
Other Provisions			-74	-156		-100.00	-52.31				-0.14	-0.32	
GROSS PROFIT	**4,665**	**1,414**	**1,285**	**1,604**	**2,249**	**10.11**	**-19.93**	**-28.67**	**21.26**	**2.94**	**2.48**	**3.24**	**4.63**
Extraordinary Items	-42	-13	415	-14	-20	-103.07	-2971.18	-29.40		-0.03	0.80	-0.03	-0.04
Taxes	-45	-14	-16	-18	-23	-15.22	-11.87	-20.19	22.17	-0.03	-0.03	-0.04	-0.05
NET PROFIT (LOSS)	**4,578**	**1,388**	**1,683**	**1,571**	**2,206**	**-17.53**	**7.09**	**-28.76**	**20.13**	**2.88**	**3.25**	**3.17**	**4.54**
APPROPRIATION OF SURPLUS:													
Attributable To Minority Interests													
Dividends			1,544	1,544	1,544	-100.00							
Transfer To Equity	**4,578**	**1,388**	**139**	**28**	**662**	**897.18**	**401.81**	**-95.81**	**-63.94**				
Bonus Shares Issued													
Changes In Equity Not Through P&L	**4,578**	**1,388**	**139**	**28**	**2,206**	**897.20**	**401.80**	**-98.74**	**20.13**				

CORPORATE RATIO FORMULAE - FINANCING, LEASING & INVESTMENT

A SIZE FACTORS	
1 . TOTAL ASSETS	TOTAL ASSETS
2 . NET FINANCING RECEIVABLES	GROSS FINANCING RECEIVABLES - DEFERRED INCOME - PROVISIONS (FRLR)
3 . TOTAL EQUITY	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT CO.+ MINORITY INTEREST
4 . TANGIBLE NET-WORTH	TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
5 . TOTAL DEBT	SHORT-TERM DEBT + LONG-TERM DEBT
6 . NET PROFIT	NET PROFIT
7 . ASSETS UNDER MANAGEMENT	ASSETS UNDER MANAGEMENT
B . ASSET QUALITY (%)	
8 . TOTAL ASSETS GROWTH RATE	CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS x 100 PREVIOUS YEAR TOTAL ASSETS
9 . FR-LOSS RESERVE / FINANCING RECEIVABLES	FINANCING RECEIVABLES LOSS RESERVE x 100 FINANCING RECEIVABLES
10 . NON-PERFORMING FR / FINANCING RECEIVABLES	NON PERFORMING FINANCING RECEIVABLES x 100 FINANCING RECEIVABLES
11 . FR-LOSS RESERVE / NON-PERFORMING FR	FINANCING RECEIVABLES LOSS RESERVE x 100 NON PERFORMING FINANCING RECEIVABLES
12 . UNPROVIDED NON-PERFORMING FR / TOTAL EQUITY	NON PERFORMING FR - FR LOSS RESERVE x 100 TOTAL EQUITY
13 . FR-LOSS PROVISION CHARGE / FINANCING RECEIVABLES	FINANCING RECEIVABLES PROVISION CHARGE x 100 FINANCING RECEIVABLES
C . CAPITAL AND LEVERAGE	
14 . TOTAL EQUITY GROWTH RATE (%)	CURRENT YEAR TOTAL EQUITY – PREVIOUS YEAR TOTAL EQUITY x 100 PREVIOUS YEAR TOTAL EQUITY
15 . TOTAL EQUITY / TOTAL ASSETS (%)	TOTAL EQUITY x 100 TOTAL ASSETS
16 . LEVERAGE (TIMES)	TOTAL LIABILITIES TOTAL EQUITY
17 LEVERAGE - EXCLUDING MINORITY INTEREST (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - MINORITY INTERESTS
18 . TOTAL LIABILITIES / TANGIBLE NET-WORTH (TIMES)	TOTAL LIABILITIES TOTAL EQUITY - GOODWILL - OTHER INTANGIBLE ASSETS
19 . LONG-TERM DEBT / TOTAL EQUITY (TIMES)	LONG-TERM DEBT TOTAL EQUITY
20 . TOTAL DEBT / TOTAL EQUITY (TIMES)	SHORT-TERM DEBT + LONG-TERM DEBT TOTAL EQUITY
D . LIQUIDITY AND COVERAGE	
21 CURRENT RATIO (TIMES)	CURRENT ASSETS CURRENT LIABILITIES
22 . CASH + QI + ST GROSS FR / ST DEBT (TIMES)	CASH + QUOTED INVESTMENTS + ST GROSS FINANCINFG RECEIVABLES SHORT-TERM DEBT
23 . CASH & QUOTED INVESTMENTS / TOTAL ASSETS (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL ASSETS
24 CASH & QUOTED INVESTMENTS / TOTAL LIABILITIES (%)	CASH + QUOTED INVESTMENTS x 100 TOTAL LIABILITIES
25 . NET FINANCING RECEIVABLES / TOTAL ASSETS (%)	NET FINANCING RECEIVABLES x 100 TOTAL ASSETS
26 . NET FINANCING RECEIVABLES / TOTAL LIABILITIES (%)	NET FINANCING RECEIVABLES x 100 TOTAL LIABILITIES

E . PROFITABILITY (%)	
27 . RETURN ON AVERAGE ASSETS (ROAA)	NET PROFIT x 100 AVERAGE TOTAL ASSETS
28 . RETURN ON AVERAGE EQUITY (ROAE)	NET PROFIT x 100 AVERAGE TOTAL EQUITY
29 . FUNDING COST	FINANCING EXPENSE x 100 AVERAGE TOTAL DEBT
30 . FINANCING INCOME ON AVERAGE EARNING ASSETS	FINANCING INCOME x 100 AVG. (CASH & BANKS + NET FINANCING RECEIVABLES + BONDS)
31 . FINANCING DIFFERENTIAL	FINANCING INCOME ON AVERAGE EARNING ASSETS - FUNDING COST
32 . NON-FINANCING INCOME / GROSS INCOME	NON FINANCING INCOME x 100 GROSS INCOME
33 . OPERATING EXPENSES / GROSS INCOME	OPERATING EXPENSES x 100 GROSS INCOME
34 . OPERATING PROFIT GROWTH RATE	CURRENT YEAR OPERATING PROFIT – PREVIOUS YEAR OPERATING PROFIT x 100 PREVIOUS YEAR OPERATING PROFIT
35 . OPERATING PROFIT / AVERAGE ASSETS	OPERATING PROFIT x 100 AVERAGE TOTAL ASSETS
36 . RISK PROVISIONING CHARGE / OPERATING PROFITS	PROVISION CHARGE FOR DOUBTFUL FR + OTHER PROVISION CHARGES x 100 OPERATING PROFITS
37 . REALIZED INCOME / GROSS INCOME	REALIZED INCOME x 100 TOTAL INCOME
38 . DIVIDEND PAYOUT RATIO	CASH DIVIDENDS x 100 NET PROFIT
F . INVESTMENT	
39 . MARKET CAPITALIZATION	WEIGHTED AVG. NUM. OF SHARES OUTSTANDING X END OF PERIOD SHARE PRICE
40 . SHARE PRICE	END OF PERIOD SHARE PRICE
41 . EARNINGS PER SHARE	NET PROFIT WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING
42 . EARNINGS PER SHARE GROWTH (%)	(CURRENT Y. EARNINGS PER SHARE – PREVIOUS Y. EARNINGS PER SHARE) x 100 PREVIOUS Y. EARNINGS PER SHARE
43 . PRICE / EARNINGS RATIO (TIMES)	END OF PERIOD SHARE PRICE EARNINGS PER SHARE
44 . PRICE / BOOK RATIO (TIMES)	END OF PERIOD SHARE PRICE (TOTAL EQUITY / WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING)
45 . CASH DIVIDEND PER SHARE	CASH DIVIDEND PAID PER SHARE
46 . STOCK DIVIDEND PER SHARE (%)	STOCK DIVIDEND PAID PER SHARE AS A PERCENTAGE OF SHARE PAR VALUE

RATINGS DEFINITIONS

International Issuer Credit Ratings: Foreign Currency and Local Currency

CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness, as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.

C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.

A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.

A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.

C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.

Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for a sovereign rating outlook is longer, at 12-24 months.

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- CI's credit ratings are intended to provide a relative ranking of credit risk among rated entities and obligations based on fundamental credit analysis and expressed in rating symbols from 'AAA' to 'D'. Reflecting the limited number of gradations, entities or obligations with the same rating may not be of exactly the same credit quality, but they will share substantially similar credit risk characteristics.
- CI's credit ratings are assigned by, and all subsequent rating actions (including upgrades, downgrades and changes in outlook) determined by, rating committees and never by an individual analyst.
- CI's credit ratings indicate the likelihood of default, but they do not indicate a specific probability of default over any given time period.
- CI may initiate credit ratings on issuers without the request of the issuer provided there is adequate public information available to form a credible opinion of the issuer's creditworthiness.
- CI does not audit or verify the accuracy of information obtained from issuers as part of the rating process and may, in some cases, rely on unaudited financial data.
- A credit rating may, at any time, be raised, lowered, placed under review, suspended or withdrawn in accordance with CI's policies and procedures.
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- CI's credit ratings focus on one aspect of investment risk – credit (or repayment) risk – and do not explicitly capture loss severity or recovery prospects.
- CI's ratings are not recommendations to purchase, sell, or hold stocks or shares in an institution or particular security.
- CI's ratings do not assess or indicate the likelihood of changes in the market price of rated instruments due to market-related factors such as changes in interest rates or liquidity.
- CI's ratings do not provide an opinion of the liquidity in the market of an issuer's securities.